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Turning Discounts Into Profits: Factors Influencing Online Purchasing Decisions for Hotel Add-on Items

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Abstract

A hotel website exclusive discount is widely adopted by major chain hotels to increase the volume of direct bookings. Although the traditional purpose of a discount promotion is to attract customers to the business, this research suggests that a hotel website exclusive price discount can induce consumers' additional spending. Principles of mental accounting and two thinking styles (analytic vs. holistic) predict different effects of a price discount and the add-on product type by individual thinking styles. A quasi-experiment investigated the effect of an unexpected discount, relatedness of add-on item to a hotel stay, and individual thinking styles on add-on purchasing. The mediating role of impulse buying was subsequently examined using the PROCESS model. The effect of a price discount and the relatedness of add-on item are significant for analytic thinkers, whereas holistic thinkers report higher likelihood to purchase add-on items regardless of relatedness. Holistic thinkers' likelihood to purchase is enhanced through an impulse buying tendency. The findings provide further evidence for the role of individual differences in response to pricing tactics by suggesting that a price promotion increases add-on purchases for analytic thinkers, whereas promoting a sense of impulsiveness can be more effective for holistic thinkers.

Keywords

mental accounting; thinking style; discount; add-on item; impulse buying

Introduction

The high volume of bookings made through online travel agencies (OTAs) threatens the profitability of hotels (Ting, 2017). To combat this trend, most major hotel chains launch direct-booking campaigns, which provide brand website exclusive rates (Green, 2016; Ting, 2017). Offering discounted rates is beneficial to hotel operators, who can avoid high OTA commissions, and customers, who enjoy an extra discount. These strategies are effective in boosting direct bookings, but the savings in commissions are not maximized because of the discount. This research starts from the question: How can operators maximize their revenue while providing price promotions?

Cross-selling can provide a solution because it increases sales volume per customer (Kamakura, 2008). Cross-selling is a sales strategy that allows consumers the opportunity to add optional goods and services to a baseline product (Kamakura, 2008). In hospitality, the service provider offers main products and services along with ancillary options (Lee, 2015). For example, during the guest's check-in, the front clerk may offer a package of champagne and chocolates to induce an additional purchase. Expedia launched the Expedia Add-on Advantages, which allows customers

to enjoy discounted bundled rates, even when they book the flight and hotel separately (Schaal, 2017). Because cross-selling induces consumers' subsequent unplanned purchases, it is closely related to consumers' unplanned purchasing behaviors (Kamakura, 2008).

The principal of mental accounting (Thaler, 1985) can explain consumers' unplanned purchases. In general, consumers have mental budgets for expenditures (Heath & Soll, 1996). Because mental budget plays a role in self-control (Thaler & Shefrin, 1981), it can mitigate unplanned purchases (Stilley et al., 2010). A mental budget can induce unplanned purchases when it is linked to a windfall gain. When individuals receive unexpected gains, they spend such money more easily and readily than budgeted funds (Arkes et al., 1994). Hence, consumers are expected to make unplanned purchases when they receive an unexpected discount. A discounted rate offered

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as a direct-booking campaign is not a public rate and is not searchable on meta-search vendors such as Kayak and Trivago. Therefore, customers will not see the discounted room rate until they sign into the brand website, making the discount an unexpected gain.

People make purchase decisions differently based on their thinking styles (Hossain, 2018) and impulse buying tendencies (Dhar et al., 2007). Analytic thinkers are inflexible in their decision criteria, whereas holistic thinkers are more flexible (I. Choi et al., 1999). Considering the relationship between mental accounting and windfall gain, the effect of an unexpected discount will be different based on an individual's thinking style (Hossain, 2018). Moreover, different thinking styles can influence the preference of product type (Hossain, 2018). Research suggests that psychological impulse may stimulate additional purchasing (Dhar et al., 2007). Impulse buying is the unplanned purchase decision that is made after a consumer enters a retail environment (Rook & Fisher, 1995). Thus, this research investigates how the two thinking styles along with impulse buying tendency influence mental accounting behavior when making additional purchases with an unexpected discount.

In sum, the overarching question of this research is whether a hotel website exclusive discount promotion will induce customers' unplanned purchases. Specifically, this research examines the effect of an unexpected discount on consumers' intentions to make add-on purchases based on individual thinking style and type of add-on item. The research evaluates how impulse buying traits mediate the effects on unexpected discount and thinking style on consumers' add-on purchase decisions. This study is differentiated from previous research on unexpected savings, which focuses on the impact of coupons in a traditional retail setting (Ha et al., 2006; Heilman et al., 2002). This research provides an understanding of the psychological factors that influence add-on purchasing decisions in an online hotel setting. The findings of the research provide guidelines for hotel operators to utilize discounting and marketing tactics to maximize revenue by increasing the sale of add-on items.

Literature Review

Online Consumer Decisions

The internet shifts the seller-centered merchant environment to the consumer-centered environment (Lamberton & Stephen, 2016). In the traditional merchant setting, consumers had limited access to information about the product/service provided by the seller (Hobbs, 2004). The internet reduced consumers' search cost (Bakos, 1997), which allowed consumers to access more information online compared with traditional purchasing (Bagga & Bhatt, 2013). Lowering search costs intensifies

competition as the competition is expanded from local to national or international (Lynch & Ariely, 2000). Accordingly, online marketing tactics, such as price promotions, become more sophisticated in the online merchant setting to survive the intensified price competition (Li et al., 1999).

Behavioral science research suggests that dispositional characteristics and situational factors need to be considered to understand human behavior (Fishbein & Ajzen, 1975). Dispositional characteristics are internal to the individual whereas situational factors are external aspects of the environment. When individuals make purchase decisions, they recognize the needs based on their attitudes, motivations, perceptions, personality, lifestyle, and knowledge (Loudon, 1988). Consumer research argues that personality traits govern buyers' decisions for deliberate versus spontaneous purchases and "thinking" versus "feeling" purchases (Baumgartner, 2002). Spontaneous purchases can be a result of impulsive buying or price promotions (Baumgartner, 2002). As a result, individual differences significantly influence reactions to marketing stimuli such as pricing (Bagga & Bhatt, 2013). Research suggests that personality traits may be especially instrumental in online shopping behaviors (C. Wang & Yang, 2008). This research adopts external and internal cues that together are expected to influence decisions to purchase an add-on item. Price discount and product type are included as external cues, while individual thinking style and impulse buying tendencies are included as internal cues.

Cross-Selling

Cross-selling is a widely used sales technique where businesses offer additional items that are related or unrelated to a main purchase (Kamakura, 2008). The primary goal of cross-selling is to increase sales volume per customer by selling additional products and services to the existing customers (Kamakura et al., 2003). Cross-selling is differentiated from up-selling, such that up-selling increases revenue by upgrading the quality to a more expensive version of the planned item (Kamakura, 2008).

In an online booking setting, cross-selling offers ancillary products or services, such as room upgrades or extra amenities, on top of the hotel room (Lee, 2015). Cross-selling can maximize transaction utility because customers enjoy multiple options with a single transaction. It is beneficial to operators because they can increase revenue without incurring third-party distribution channel costs (Rodríguez-Algeciras & Talón-Ballesteros, 2017). In a traditional merchant setting, a salesperson first understands the customer's needs and preferences and then offers additional products based on those needs. On the contrary, in a modern merchant setting, such as e-commerce, direct human interactions between the salesperson and the customer occur less

often than in a traditional merchant setting. Accordingly, opportunities for cross-selling are reduced in an online merchant setting (Kamakura, 2008). Therefore, capturing the right moment of cross-selling and providing the right products are critical for successful online cross-selling (Günes et al., 2010).

Marketing research emphasizes the importance of understanding customers' needs to implement cross-selling successfully (Kamakura, 2008). Nevertheless, the majority of research on cross-selling adopts the approach from the perspective of merchandisers (Rapp et al., 2015; Schmitz et al., 2014). Little attention is given to the psychological factors that influence customers' add-on item purchasing decisions (Liu-Thompkins & Tam, 2013; X. Wang & Keh, 2017).

Discount and Unplanned Purchase

As cross-selling induces customers to purchase unplanned items with the planned item (Kamakura, 2008), research on unplanned purchases can explain its psychological underpinnings. Previous research suggests that consumers make unplanned purchases when they have unanticipated gains (Arkes et al., 1994) or when they have an elevated mood (Donovan et al., 1994). According to the principle of mental accounting, individuals are likely to have a plan for spending in advance of when they make purchase decisions (Heath & Soll, 1996). Individuals utilize a cognitive financial process, which is mental accounting, to organize, evaluate, and track their financial activities (Thaler, 1999). This principle implies that individuals label the sources and uses of funds in a manner similar to financial accounting (Thaler, 1985). A windfall or unexpected gain may have no established account to which the gain is allocated, resulting in spending readily (Arkes et al., 1994; Ha et al., 2006).

Price is perceived as a relative loss while price discount is perceived as a relative gain (Johnson et al., 1999). According to prospect theory, people respond differently to gains and losses (Kahneman & Tversky, 1979). People experience "loss aversion" (Tversky & Kahneman, 1992, p. 316) and assign more weight to losses than gains when outcomes are uncertain. This principle is demonstrated in the pricing research, which suggests that gains from the discount information should be presented separately and losses (price information) should be integrated or bundled (Noone & Mattila, 2009; Tanford et al., 2012). When hotel room rates for multiple nights are displayed separately, ratings of willingness-to-book are higher than when the average rate for multiple nights is displayed. If the hotel room has different rates for multiple nights, consumers perceive that they receive a discount for the night at a lower rate (Noone & Mattila, 2009). When savings are not revealed, itemized pricing creates uncertainty because the itemization does not provide diagnostic information about the discount (Tanford et al., 2012).

Previous research considers a discount as a gain and demonstrates how consumers respond to unexpected discounts when they make purchase decisions (Ha et al., 2006; Heilman et al., 2002; Hodge & Mason, 1995). The recipients of unexpected discounts tend to spend the savings in the store because unexpected monetary savings are considered a windfall gain (Hodge & Mason, 1995). People are more likely to spend the money if the saving is unexpected compared with when it is expected (Ha et al., 2006). Marketing research suggests that grocery spending on unplanned items can increase by up to US\$10 for every dollar saved on planned items (Heilman et al., 2002). When consumers make a hotel booking, their budget for a hotel room is determined in the rate searching step. In the case of a hotel website exclusive discount rate, consumers will not notice they receive a discount until they visit the hotel website because the rate is not available outside of the hotel website. Therefore, the hotel website exclusive discount rate can be considered an unexpected gain.

Priming effects (Anderson, 1990) can stimulate consumers' unplanned purchases. Research on memory suggests that the presentation of a semantically related prime can increase the recall and recognition of a related target (McNamara, 1992). For instance, when the main purchase is spaghetti, the consumer will experience a heightened awareness of products that are highly related to the one primed, such as spaghetti sauce. Previous research shows that the likelihood of an unplanned purchase is increased when the product is cognitively related to the one primed by a surprise coupon (Heilman et al., 2002). However, the priming effect is diminished when the unplanned product is not in close proximity to the main purchase (Crowder, 1976). In the online hotel booking setting, add-on items are displayed immediately after the hotel room selection is made. In this case, the psychological transaction proximity is relatively close compared with the case of shopping in the grocery store. Therefore, customers will be more likely to purchase add-on items when they are cognitively related to the main purchase.

Thinking Style

Previous research indicates that individual thinking style influences individuals' mental accounting systems (Hossain, 2018), resulting in different effects of a price promotion based on individual thinking styles. There is a fundamental divergence in categorization between analytic and holistic thinkers (I. Choi et al., 1999). When evaluating objects, holistic thinkers focus on the overall relationships across categories. Thus, holistic thinkers are more flexible in categorization (Masuda & Nisbett, 2001). Holistic thinkers are likely to deviate from purchase and financial decisions, whereas analytic thinkers are inflexible within their decision criteria (I. Choi & Choi, 2002). As a result, holistic

thinkers are more likely to deviate from mental accounting norms and categorization (Masuda & Nisbett, 2001).

Contrary to holistic thinkers, analytic thinkers tend to create categories based on specific attributes and then assign the objects to those categories (Masuda & Nisbett, 2001). In other words, analytic thinkers demonstrate inflexibility in categorization. Mental labeling requires rule-based thinking; thus, its effects are implied for analytic thinkers (Hossain, 2018). Analytic thinkers are inflexible within their mental accounting systems, resulting in inhibition of unrelated category purchases with the savings from a discount (I. Choi & Choi, 2002).

Although thinking style has not been investigated for hotel purchases, research demonstrates that the effect of hotel pricing variations can be moderated by individual differences. When purchasing hospitality-related products, consumers tend to rely more on an external reference price such as advertised rate than on their internal reference price derived from the previous experience (C. Choi & Mattila, 2018). However, the reliance on external reference price is moderated by individual differences such as gender (C. Choi, Joe, & Mattila, 2018), individual preference uncertainty (C. Choi, Mattila, & Upneja, 2018), and need for status (Yang et al., 2016). Individual differences were found for discounts, in that the effect of framing price promotions on hotel booking decisions was moderated by individuals' personal sense of power (C. Choi & Mattila, 2014). Cross-cultural differences were found for customers' fairness perceptions for variable hotel pricing strategies (S. Choi & Mattila, 2006).

In summary, there is evidence that people respond differently to pricing cues as a function of demographic and psychographic variables. Because holistic thinkers are willing to deviate from their budgets, they are more likely to purchase add-on items in general, whereas the effect of add-on product relatedness will be more pronounced for analytic thinkers compared with holistic thinkers.

Hypothesis 1: Holistic thinkers are more likely than analytic thinkers to purchase add-on items.

Hypothesis 2: The effect of discount and add-on item type will be moderated by thinking style.

Hypothesis 2a: When there is a discount, analytic thinkers will be more likely to purchase an add-on item that is directly related to the hotel room versus an item that is not directly related.

Hypothesis 2b: Discount and add-on item product type will not influence holistic thinkers' likelihood to purchase (LTP) an add-on item.

Impulse Buying

Research on impulse buying suggests that psychological impulse may stimulate additional purchasing (Dhar et al.,

2007). Previous research identified that impulse buying is influenced by merchandising stimuli such as shelf allocation of products (Flamand et al., 2016) or when individuals have new ideas while shopping (Inman et al., 2009). In hospitality, impulse buying is considered one of the critical drivers of hedonic consumption (Van Boven & Gilovich, 2003). Hospitality research demonstrates that impulse buying is associated with hedonic values (Miao, 2011). Because vacation travel is a hedonic activity, it may be conducive to impulse buying (George & Yaoyuneyong, 2010). Impulse buying is a mood booster, whereby it is associated with positive affective responses, which eventually leads to guilty pleasure and pleasurable guilt (Miao, 2011). Such emotional appraisal drives shopping momentum, as it induces consumers to continue to purchase unplanned products (Dawson & Kim, 2009). Previous research indicates that consumers are more likely to purchase unplanned products when individuals have high levels of impulse buying tendency (Dawson & Kim, 2009). The rarity of a product can induce nonimpulsive consumers to make indulgent consumption decisions (May & Irmak, 2018). Moreover, consumers high in impulsiveness are less likely to experience cognitive dissonance after making an unplanned purchase during travel (George & Yaoyuneyong, 2010).

Previous research on impulse buying and thinking style predicts a positive relationship between holistic thinkers and impulse buying traits. Individuals with a mood-dependent cognitive style tend to integrate their mood with the decision process (Hascher, 2010; Pretz & Totz, 2007). Consumers' positive affective states serve as internal triggers for impulse buying (Rook & Gardner, 1993). A positive mood provides preconditions for holistic thinking because it enables individuals to be open-minded, which is essential for holistic thinking (Hascher, 2010). Therefore, a positive relationship between holistic thinking and impulse buying is inferred. Because holistic thinkers are not tied to their budgets, it is predicted that there will be no effect of discount and add-on item type on their LTP an add-on item. Hence, individuals' impulse buying traits will enhance holistic thinkers' LTP an add-on item, regardless of discount and add-on item type. Figure 1 depicts the proposed conceptual model.

Hypothesis 3: Impulse buying will mediate the impact of discount and add-on item type on holistic thinkers' LTP an add-on item.

Preliminary Study

Method

Participants and procedure. A preliminary study was conducted to determine the degree of cognitive relatedness of add-on items. Subsequently, the effect of add-on item type

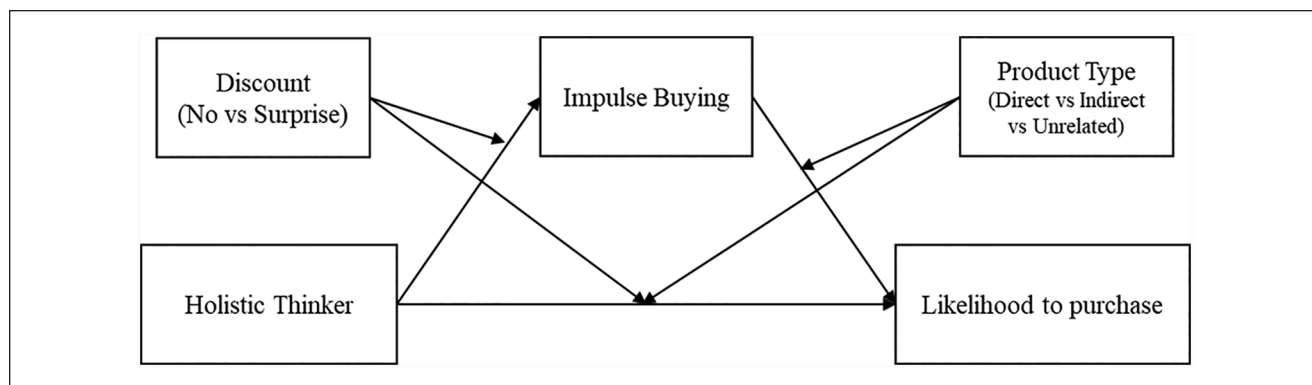


Figure 1. Proposed Conceptual Moderated-Moderated-Mediation Model for Unplanned Purchase Decision Process (Model 29).

on consumers' purchase decisions was tested. A sample of add-on items and descriptions was collected after reviewing actual hotel brand websites in the United States. Examples of add-on items include a dozen roses, city tour, hotel room upgrade, and airport transfer. A total of 100 undergraduate students in a hospitality program at a university, who were at least 18 years of age, participated in the survey. The survey materials consisted of 31 add-on items with a description and picture, followed by three questions for each item. After removing responses having more than 10 missing variables, 86 responses were retained for the analysis.

Measures. Participants rated the relatedness of each add-on item using the statement, "This item is directly related to the hotel stay" on a 7-point Likert-type scale from strongly disagree to strongly agree. They rated the LTP the add-on item with a hotel room booking on a 7-point Likert-type scale from 1 (extremely unlikely) to 7 (extremely likely). Finally, an open-ended question for willingness to pay (WTP) was asked, whereby participants wrote the dollar amount they were willing to pay for each add-on item with a hotel booking.

Results

Add-on item factors. Factor analysis was used to reduce the items to a set of meaningful dimensions that reflect the level of relatedness to the hotel room purchase. The 31 ratings of add-on item relatedness were analyzed using principal components analysis with varimax rotation and Kaiser normalization. Factor analysis can reduce data by identifying representative variables from a larger set of variables (Hair et al., 2010). In the initial analysis, eight items were removed due to high cross-loadings or low factor loadings. A total of 23 add-on items were retained for the final analysis. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was 0.78, which is larger than the suggested minimum value of 0.60 (Hair et al., 2010). Bartlett's test of sphericity was

rejected with χ^2 of 850.972, $p < .0001$. Both measures indicate that factor analysis is highly appropriate for the data. The analysis produced four factors that together explained 56.29% of the variance in the data (see Table 1).

Each factor was interpreted and labeled to describe its degree of relatedness. The first factor, *Indirect*, includes amenities that are provided by the hotel, but not directly related to the hotel room product. The second factor, *Unrelated*, contains outside activities that are provided by an affiliated company and unrelated to the hotel stay. *Direct* consists of items that are provided by the hotel and directly related to the hotel stay. *Transportation* includes rental car, airport transfer, and parking.

A composite measure was created for each dimension by taking the average of all the items that loaded on the factor (Hair et al., 2010). This produced four measures of LTP and WTP for indirect, unrelated, direct, and transportation. The level of relatedness served as the independent variable in a repeated measures analysis of the effects of relatedness on LTP and WTP.

The effect of relatedness on LTP and WTP. LTP was analyzed in a repeated measures ANOVA with four within-subject factors (add-on item type: indirect, unrelated, direct, and transportation) that were obtained from the factor analysis. The sample size of 86 yields statistical power of 0.99 to detect medium size or larger effects. The results revealed a significant main effect for the add-on item type, $F_{(3, 83)} = 62.99$, $p < .001$, $\eta^2 = 0.697$. Participants were more likely to purchase the add-on items that were directly related to the hotel stay ($M = 5.40$) and transportation items ($M = 5.22$) than those that were indirectly related ($M = 3.61$) and unrelated ($M = 4.30$). Participants were least likely to purchase the indirect add-on items.

A repeated measures ANOVA on WTP with four within-subject factors was conducted. There was a significant main effect for the add-on item type, $F_{(3, 83)} = 40.18$, $p < .001$, $\eta^2 = 0.592$. WTP for indirect products ($M = \text{US}\$25.74$) was

Table 1.
Dimensions of Add-on Items.

Factor	Components	Factor Loading	Eigen-Value	Variance Explained	Cronbach's α	Relatedness
Indirectly related			4.472	18.64%	0.86	4.58
	Fruit platter	0.716				
	Dozen roses	0.714				
	Seasonal blooms	0.702				
	Beer and snacks	0.673				
	Cookies and milk	0.669				
	Champagne and strawberries	0.638				
	Chocolate Truffles	0.617				
Unrelated	Bottle of wine	0.581				
			3.529	14.71%	0.82	5.07
	City tour	0.797				
	City tour sightseeing pass	0.747				
	Theme park ticket	0.697				
	Show ticket	0.629				
	Skate rental at the ice rink	0.557				
Directly related	Baseball ticket	0.507				
			3.293	1.72%	0.69	6.20
	Early check-in	0.764				
	Pool cabana	0.694				
	Room upgrade	0.640				
	Valet parking	0.611				
	Food & Beverage credit	0.580				
Transportation	Late checkout	0.541				
			2.204	9.19%	0.60	5.97
	Rental car (Avis)	0.792				
	Airport transfer	0.663				
	Parking garage	0.531				

significantly lower than the other three add-on item types, which were not significantly different from each other. Respondents reported the highest WTP for unrelated products ($M = \text{US}\$52.84$) followed by direct ($M = \text{US}\49.42) and transportation ($M = \text{US}\$44.36$).

The findings of the preliminary study suggest that consumers make different purchasing decisions for add-on items based on the add-on item type. Respondents reported the lowest ratings for the indirectly related products, which are nonroom hotel amenities. Conversely, participants were more likely to purchase add-on items when they were directly related to the hotel stay. This result supports the rationale that people prefer cognitively related products versus nonrelated products when they purchase additional items. Transportation is as important as the directly related product in terms of LTP. A possible explanation is that transportation and hotel are both parts of travel.

Three add-on item types were selected for the main study, which are directly related, indirectly related, and unrelated add-on items. Direct add-on items are the ones that show the highest cognitive relatedness to the main purchase, which is a hotel room purchase in this research. Indirectly related

add-on items are nonroom hotel amenities such as F&B products. Both of direct and indirect add-on items are offered by the hotel, and the entire revenue goes to the hotel. Unrelated add-on items are offered by companies outside of the hotel, which the hotel sells on behalf of the vendors. The transportation factor was removed for the main study due to low reliability ($\alpha = .60$). Among the remaining three factors, one add-on item of each type was selected for the experiment. The items selected were those that were most representative of the dimension based on factor loadings while having similar WTP and LTP. The items used in the main study were room upgrade for direct (WTP = $\text{US}\$60.18$, LTP = 5.33), champagne and strawberries for indirect (WTP = $\text{US}\$34.61$, LTP = 4.17), and city tour for unrelated (WTP = $\text{US}\$40.01$, LTP = 4.40). The descriptions were slightly modified for the experiment scenario.

Main Study

Method

Design of experiment. This study used 2 (Discount: Discount vs. No discount) \times 3 (Add-on Item Type: Direct vs.

Indirect vs. Unrelated) \times 2 (Thinking Style: Analytic vs. Holistic) quasi-experimental design. The discount and the add-on item type were manipulated using a hypothetical online hotel booking scenario. Thinking style was measured using the 10-item version of the 24-item analytic-holistic thinking scale (AHS) (I. Choi et al., 2003; Monga & John, 2008). Although the AHS was developed to explain the cross-cultural differences, research also adopts the AHS to measure individual thinking style within the same culture (I. Choi et al., 2007). This research adopts a within-culture focus to provide the explanation how individual thinking styles influence consumers' purchase decisions. To predict cognitive task performance, researchers recommend using the AHS to assign individuals from a single culture into two or more groups (Duff & Sar, 2015; Monga & John, 2010). Following past research, respondents in this research were split into analytic and holistic groups based on the median average AHS score ($M = 5.09$). As higher ratings on AHS items capture holism, respondents with high scores on the AHS are holistic thinkers whereas those with low scores are analytic thinkers.

Participants and procedure. The online research firm, Qualtrics, was utilized to collect a sample of 315 participants. To be eligible, participants had to be at least 18 years old and have made at least one online hotel booking more than the last 6 months. Participants received internal credits from Qualtrics for participating. The sample was 81.3% of females and 18.7% of males. Approximately 42% of the sample was single, and 40.0% of the sample was married. The age ranges were 18–29 (34.6%), 30–39 (19.7%), 40–49 (16.8%), 50–59 (14.9%), and 60 or more (14.0%). The majority of the sample (78.4%) was Caucasian, followed by African American (9.8%), and Hispanic (5.4%). The majority of the sample had a 4-year college degree or graduate degree (49.8%). The median annual income was approximately US\$50,000. There were no meaningful differences between the demographic composition of analytic and holistic thinkers.

Participants were randomly assigned to one of the six manipulated experimental conditions, with 51–64 participants per condition. In the scenario, participants were asked to make a hypothetical hotel room booking online. The result of the meta-search engine (Kayak.com) was displayed on the first screen, on which the hotel is selling at the same regular rate (US\$309/night) across multiple booking websites including the hotel brand website and online travel agency (OTA) websites. On the second page, participants were directed to one of two discount conditions. The participants in the discount group saw the hotel website room rate with a 12% discount (US\$271.92/night) along with the original rate struck through. The OTA rate information chart showed that OTAs are selling at the regular rate. For the no discount condition, the OTA website

showed the regular rate (US\$309/night). After selecting the hotel room for each condition, participants were directed to the next page and viewed the description of one of three add-on item types: directly related (room upgrade), indirectly related (champagne with chocolate-covered strawberries), or unrelated (Chicago city tour). Participants rated the LTP the offered add-on item. On the next page, the same add-on item was displayed with the same description and the price (US\$50 for all three conditions). After reviewing the description and the price information, participants were asked to make a binary purchasing choice for the offered add-on item. Then participants answered thinking style questions, impulse buying, manipulation checks, and demographic questions. The stimuli images for each screen are displayed in Appendix B.

Measures. Participants rated the LTP the add-on item with a hotel room booking on a 7-point Likert-type scale from 1 (extremely unlikely) to 7 (extremely likely). They indicated their intention to purchase the add-on item with a binary choice (yes = purchase, no = not purchase). All participants rated the 10 items of the AHS scale on a 7-point Likert-type scale from 1 (strongly disagree) to 7 (strongly agree) ($\alpha = .80$). For impulse buying, 10 items ($\alpha = .86$) that were developed by previous research were utilized (Rook & Fisher, 1995).

As a manipulation check, participants answered whether they received a discount for the hotel room or not. For add-on item, participants selected the add-on item that they were offered from a multiple-choice question with the three manipulated add-on items as options. The degree of cognitive relatedness of add-on item to the hotel room was confirmed by the ratings of agreement with the statement, "This item is directly related to the hotel stay." All measurement items for the main study are presented in Appendix A.

Results

Manipulation check. When asked if they received a discount for the hotel room, 38.4% of the participants in the no discount group answered yes and 61.6% answered no. For the discount group, 84.1% of the participants answered yes and 15.9% answered no. A z -test for proportions indicates that the group proportions are significantly different at $p < .0001$. The result indicates that the discount stimuli were manipulated successfully. For the add-on item type, the majority of participants in each add-on item group reported the correct add-on item that they were offered in the scenario (room upgrade: 93.9%, champagne with chocolate-covered strawberries: 95%, Chicago city tour: 91%). Therefore, the manipulation of add-on item worked appropriately in the experiment. For the degree of relatedness, the results of a one-way ANOVA revealed that the add-on item type significantly influenced the perceived cognitive relat-

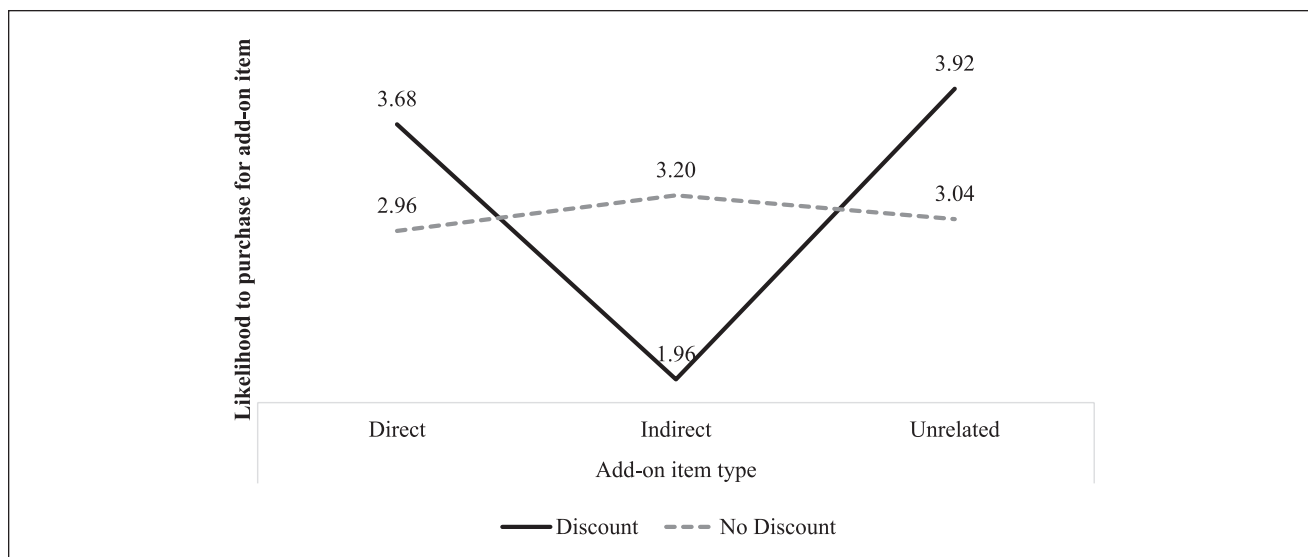


Figure 2

The Effect of Add-on Item Type on Analytic Thinker's Likelihood to Purchase for Add-on Items.

Note. No discount is not significant.

edness of the add-on item, $F_{(2,312)} = 17.74, p < .01, \eta^2 = 0.10$. Bonferroni post hoc analysis among the three levels shows that the relatedness of room upgrade ($M = 5.60$) was significantly higher than Champagne with chocolate-covered strawberries ($M = 4.55$) and Chicago city tour ($M = 4.27$). Champagne and Chicago city tour were not significantly different from each other. Therefore, the direct and indirect add-on items were successfully manipulated.

Hypothesis test. A 2 (Discount: Discount vs. No Discount) \times 3 (Add-on Item Type: Direct vs. Indirect vs. Unrelated) \times 3 (Thinking Style: Analytic vs. Holistic) ANOVA was conducted on LTP the add-on item. Levene's test was not significant ($p = .86$), indicating that the equal variance assumption was met. A significant main effect of thinking style was found, $F_{(1,303)} = 14.27, p < .001, \eta^2 = 0.045$. The result indicates that holistic thinkers were more likely to purchase the add-on items ($M = 3.99$) versus analytic thinkers ($M = 3.13$), supporting Hypothesis 1.

A Discount \times Add-on Item Type \times Thinking Style interaction was significant as hypothesized, $F_{(2,303)} = 5.43, p = .005, \eta^2 = 0.035$. The interaction was split by thinking style to find the source of the significant effect. The analysis shows that the two-way interaction between discount and add-on item type was significant for analytic thinkers ($F_{(2,147)} = 5.25, p = .006, \eta^2 = 0.067$). Discount and add-on item type did not significantly influence on LTP for holistic thinkers, $F_{(2,156)} = 1.61, p = .203$. This result shows that Hypothesis 2b was supported.

The two-way interaction for analytic thinkers was split by discount to test the effect of add-on item type on LTP. The result revealed that when there was a discount for the

hotel room, the add-on item type significantly influenced analytic thinkers' purchasing decisions for the add-on item, $F_{(2,70)} = 8.25, p = .001, \eta^2 = 0.191$. As shown in Figure 2, when there was a discount for the hotel room, analytic thinkers were more likely to purchase the add-on item that was directly related or unrelated versus indirectly related to the hotel room product. However, when there was not a discount for the hotel room, add-on item type did not significantly influence analytic thinkers' purchase decisions for the add-on item ($F_{(2,88)} = 0.90, p = .411$). Therefore, Hypothesis 2a was supported.

The current research used a median split measure of thinking style, which allows a breakdown to determine the source of the three-way interaction between experimental groups. To confirm the findings of the median split method, regression analysis was conducted on LTP with a continuous AHS score as the independent variable along with dummy coding for the manipulations. The findings revealed a significant three-way interaction between thinking style, discount, and add-on type (direct: $t = 2.254, p = .025, \beta = 1.454$; unrelated: $t = 2.544, p = .011, \beta = 1.634$). Therefore, the three-way interaction was confirmed.

Logistic regression was utilized to analyze the binary choice for add-on item purchasing (purchase = 1, not purchase = 0). Three independent variables and their interactions were entered as predictors. For discount, no discount, which is a reference group, was coded as 0 and discount was coded as 1. For add-on item, indirect was coded 0 as a reference group, and direct and unrelated add-on items were coded as 1 and compared with indirect in two binary variables. For thinking style, analytic thinker was coded as 1, whereas holistic thinker was coded as 0, which is a reference

Table 2.
Logistic Regression Analysis Results to Predict Consumer Add-on Purchase Decision.

Variable	B	SE	Wald	df	Sig.	Exp(B)
Analytic thinker	-0.90	0.62	2.14	1	0.14	0.41
Discount	1.15	0.61	3.57	1	0.06	3.17
Add-on			5.38	2	0.07	
Direct	0.37	0.60	0.38	1	0.54	1.44
Unrelated	1.44	0.64	5.01	1	0.03	4.22
Analytic Thinker × Discount	-1.01	0.89	1.29	1	0.26	0.37
Add-on × Thinking Style			2.77	2	0.25	
Direct × Analytic Thinker	0.58	0.84	0.48	1	0.49	1.79
Unrelated × Analytic Thinker	-0.83	0.88	0.88	1	0.35	0.44
Add on × Discount			7.03	2	0.03	
Direct × Discount	-0.65	0.80	0.66	1	0.42	0.52
Unrelated × Discount	-2.23	0.87	6.59	1	0.01	0.11
Add on × Thinking Style × Discount			8.80	2	0.01	
Direct × Analytic Thinker × Discount		1.18	0.00	1	1.00	0.99
Unrelated × Analytic Thinker × Discount	3.06	1.23	6.22	1	0.01	21.29
Constant	-0.29	0.44	0.43	1	0.51	0.75

group. The Nagelkerke R^2 was .145 indicating that the model accounted for 14.5% of the variance in add-on item purchasing choice. The model correctly classified 64.4% of the cases, exceeding the criterion that the classification rate should be 25% better than chance (Hair et al., 2010).

As seen in Table 2, there was a marginal effect for discount and a significant Discount × Add-on Item × Thinking Style interaction. In case of the main effect for the discount, the odds of purchasing the add-on item increased when there was a hotel room discount (52%) versus when there was no discount (45%). For the three-way interaction, the odds ratio of analytic thinkers choosing an unrelated add-on item when there was a discount was 21.29 times the odds of holistic thinkers choosing an indirectly related add-on item when there was no discount.

Table 3 displays the percentage of time that each add-on item was selected as a function of thinking style, discount, and add-on item type. Overall, the proportion of holistic thinkers who chose the add-on item was higher than the proportion of analytic thinkers, regardless of discount and add-on item type. The only time the majority of analytic thinkers chose an add-on item was when there was a discount and the item was unrelated to the hotel purchase. When no hotel room discount was provided, the percentage of add-on purchases was below 50% for analytic thinkers regardless of item type. However, they chose the add-on product most often when it was directly related to the hotel stay.

The mediating role of impulse buying. To test if impulse buying mediates the interaction effect between holistic thinkers (0 = analytic, 1 = holistic), discount (0 = no discount, 1 = discount), and add-on item type (1 = direct, 2 = indirect, 3 = unrelated) on LTP add-on items, Model

29 of the moderated-moderated-mediation model (Hayes, 2017) was utilized. The result revealed a significant mediating effect of impulse buying between thinking style, discount, and add-on item type (Table 4). This result indicates that regardless of the effects of discount and add-on item type, holistic thinkers were more likely to display impulse buying behaviors, which increased LTP add-on items compared with analytic thinkers (none of the conditions includes zero in the confidence interval). Therefore, the hypothesis for the mediating role of impulse buying was supported (Hypothesis 3).

Discussion

This research identifies how and when consumers make additional purchases using the principle of mental accounting. Specifically, this study examined the effects of a price discount with a hotel room, add-on product types, and individual thinking styles (analytic vs. holistic) on consumers' purchase decisions. The results of the research confirm that an unexpected gain induces consumers' additional purchases. The findings of the research correspond to previous research on windfall gain (Ha et al., 2006), cognitive relatedness of the unplanned items to the main product (Heilman et al., 2002), and individual thinking styles (Hossain, 2018).

This research examines the different effect of discount based on individual thinking style and add-on item type. Overall, holistic thinkers were more likely purchase an add-on item than analytic thinkers (Hypothesis 1), whereas they were not influenced by the presence of discount and add-on item type (Hypothesis 2b). In other words, holistic thinkers purchase add-on items regardless of discount or product

Table 3.
Add-on Item Choice as a Function of Thinking Style, Discount, and Add-on Type.

Thinking Style	Discount	Direct (%)	Indirect (%)	Unrelated (%)
Analytic thinker	No discount	44	23	36
	Discount	32	26	60
Holistic thinker	No discount	52	43	76
	Discount	64	70	52

Table 4.
Moderated-Moderated-Mediation Process Analysis for the Indirect Effect of Thinking Style, Discount, and Add-on Item Type on LTP Through Impulse Buying.

Discount	Add-on Item Type	B	Boot SE	Boot LLCI	Boot ULCI
No	Direct	0.31	0.14	0.07	0.62
No	Indirect	0.26	0.12	0.06	0.52
No	Unrelated	0.20	0.13	0.01	0.52
Yes	Direct	0.40	0.14	0.15	0.72
Yes	Indirect	0.34	0.11	0.14	0.58
Yes	Unrelated	0.27	0.14	0.04	0.59

Note. LTP = likelihood to purchase; LLCI = lower limit confidence interval; ULCI = upper limit confidence interval. Bootstrapped confidence intervals are 95%.

type. On the contrary, analytic thinkers were influenced by the presence of discount and add-on item type (Hypothesis 2a). As predicted, analytic thinkers were more likely to make add-on purchases when they received a discount compared with when they did not receive any discount. The finding shows that a hotel website exclusive discount promotion is more effective for analytic thinkers than holistic thinkers. This result is consistent with the previous research on thinking style, which indicates that analytic thinkers are more likely to be engaged in mental accounting activities (Hossain, 2018).

The findings show that analytic thinkers prefer an add-on item that is directly related to the hotel room, which is a room upgrade in this research. Analytic thinkers have the lowest preference for an indirectly related add-on item, which is a bottle of champagne with chocolate-covered strawberries. This result is consistent with the previously obtained findings, which suggest that analytic thinkers tend to focus on individual attributes of the object whereas holistic thinkers emphasize the relationship across categories (I. Choi & Choi, 2002; I. Choi et al., 1999; Masuda & Nisbett, 2001).

While analytic thinkers' LTP add-on items can be induced by a discount, the findings show that holistic thinkers' add-on purchases can be enhanced through impulse buying traits (Hypothesis 3). This finding is consistent with the previous research, whereby holistic thinkers' decision process is influenced by individual mood state, which induces impulse buying tendencies (Hascher,

2010; Pretz & Totz, 2007; Rook & Gardner, 1993). Consumers with high impulsiveness are more likely to make unplanned purchases (Dawson & Kim, 2009).

A notable finding of the research is that analytic thinkers prefer unrelated add-on items more than directly or indirectly related add-on items. A possible explanation is a desire for variety seeking in hospitality. Hospitality exemplifies the experience economy, whereby consumers expect a memorable experience from the services of providers (Pizam, 2010). Consumers seek variety because of a desire for additional stimulation (Kahn, 1995). Thus, consumers are likely to pay more for additional experiential value (Pine & Gilmore, 1999). In the scenario of this study, respondents made a purchase decision for the main product, which is a hotel room. Hotel is an experiential product, which is conducive to variety-seeking tendencies. In other words, consumers may perceive experiential value by purchasing products that are unrelated to the hotel room but enhance the overall experience. Considering that the unrelated item was a Chicago city tour, it adds a new experience to the travel activity.

Theoretical Implications

The current study advances the theoretical understanding of mental accounting in hospitality research. Previous hospitality research adopted the principle of mental accounting to demonstrate how customers respond to the loss of paying a sunk cost (Jang et al., 2007) or a single

loss with a bundled or nonbundled price presentation (Noone & Mattila, 2009). This research extends the principle of mental accounting in hospitality by linking it to gains. The research findings show how the mental accounting mechanism works when it comes to making additional purchases with a windfall gain.

This research contributes to the body of pricing literature. The traditional purpose of a discount promotion is to attract customers to the business (Grewal et al., 1998). Previous research in hospitality focused on the effect of discount on consumers' response to the main product purchase (Lin et al., 2015; Park & Jang, 2018; Zhu et al., 2019). There is a lack of hospitality research on the way in which discounts can influence consumers' subsequent purchase decisions. This study demonstrates the extended effect of a price promotion, such that operators can utilize a price promotion to induce consumers' additional purchases, which eventually increase sales volume and revenue.

As previous research suggests, this research shows that individual differences influence the effect of marketing stimuli such as pricing (Bagga & Bhatt, 2013). Hospitality research shows that the effect of pricing variations can differ by individual characteristics (e.g., C. Choi, Joe, & Mattila, 2018; C. Choi & Mattila, 2014; C. Choi, Mattila, & Upneja, 2018; Yang et al., 2016). The findings of the research provide further evidence for the role of individual differences in responses to pricing principles by showing that a price discount is more effective for individuals with analytic thinking styles, while promoting a sense of impulsiveness is more effective for holistic thinkers.

Practical Implications

The findings provide hotel operators with guidance for discount promotions. First, the findings indicate that customers are more likely to make add-on item purchases when they receive an unexpected discount such as a hotel website exclusive rate. Therefore, hospitality operators can utilize an unexpected discount promotion to sell add-on items along with the main product. To make the offer unexpected, the discount offer needs to be provided after customers see the regular room rate. To induce customers to spend the savings they receive from the discount, add-on items need to be displayed before they pay for their main products. Temporal construal theory suggests that temporal distance influences consumers' response to future events (Liberman et al., 2007). If add-on items are displayed after the main product is purchased, customers will have to make a separate transaction for add-on items. A separate transaction will increase temporal distance, which diminishes the windfall gain effect arising from a surprise discount.

Second, the findings provide guidance for the optimal add-on item product mix. The findings suggest that add-on items that are directly related to a hotel room product are the

most appealing, whereas indirectly related add-on items are least appealing. The position of the product on the website may increase the conversion rate (Agarwal et al., 2011). Thus, directly related add-on items such as a room upgrade or late check-out should be displayed in more viewable positions than indirectly or unrelated add-on items. The add-on revenue can be maximized by including out-of-hotel activities such as a city tour, theme park ticket, or show ticket. This could be done in partnership with a tour or attraction operator, so the hotel shares in the profits from the sale.

Third, hospitality operators can save cost on promotions through direct mail offers or advertisements by turning some price promotions for membership customers into surprise promotions. Although advertising expenditure is significant in hospitality because it contributes to intangible value, it does not always yield financial return (Hsu & Jang, 2008). If hospitality operators implement surprise promotions, they can maximize their revenue by inducing additional purchases, while reducing the costs of advertising.

Fourth, the research findings suggest that hospitality operators need to implement customized marketing strategies to attract individuals with different thinking styles. The results indicate that analytic thinkers' LTP can be induced by a discount promotion while holistic thinkers' add-on purchases can be enhanced through impulse buying. Hospitality online channel managers can run unexpected price promotions to attract and induce analytic thinkers' purchases, while they can take advantage of the impulse buying tendency of holistic thinkers. Because analytic thinkers use a cognitive process for decisions, it is beneficial to highlight the windfall gain amount, thereby activating analytic thinkers' mental accounting systems, which results in spending the saving amounts on subsequent purchases. Sensory stimuli can emphasize the effect of surprise while serving as a trigger of impulse buying (Youn & Faber, 2000). Adding a surprise tag may induce consumers' add-on purchases through enhanced impulse buying traits and maximize the surprise effect of the discount. Likewise, hospitality operators may use mood-enhancing music and visual effects along with a surprise tag to elevate customers' mood. For example, hospitality operators could utilize a pop-up window and a wheel of fortune coupon with uplifting music to maximize the effect of "surprise" discounts.

Limitations and Future Research

The findings contain limitations that can be advanced by future research. This research adopts a hypothetical hotel booking scenario in which actual payment was not made. Future research can utilize secondary data, such as actual reservation data, to see how the unexpected membership-only discount promotion effect is different from the traditional price promotion when it comes to purchasing

add-on items. Researchers could partner with a hotel operator to conduct a field experiment to test the effect of surprise versus expected discounts on different add-on purchases.

The current study focuses on a specific context, which is a hotel booking. Future research can extend the proposed model to other sectors that offer add-on items such as cruise lines. Cruise is a hospitality business that consists mostly of hedonic consumption. Selling add-on items is a critical sales strategy for business success in the cruise industry because the cruise itself provides the experience as all-inclusive resorts do (Savioli & Zirulia, 2015). Compared with other hospitality products, cruise customers must rely entirely on the services and products provided by the cruise line while on board. In other words, the confounding effects of competitor's market power are minimized in the cruise line setting (Savioli & Zirulia, 2015). Therefore, the cruise industry is an ideal domain to identify what drives customers to purchase add-on items.

The sample contained a larger proportion of females than males, which could be a threat to external validity. However, the primary purpose of an experiment is internal validity and control, which are accomplished through

random assignment (Campbell & Stanley, 1973). As an additional check, three-way ANOVAs were conducted on the main dependent variables including gender as an independent variable. Gender did not interact with either manipulation and was therefore not a confounding factor. Future research should examine the effect of other demographics such as generation that might influence responses to discounts and add-on purchases.

The primary goal of the current research is to identify the effect of a discount on consumers' purchase decisions for add-on items online. However, this study did not include the depth of the discount, which influences consumers' responses (Lin et al., 2015). Therefore, future study can include discount ranges to identify the most effective discount amount or percentage to induce consumers' additional purchases.

The majority of hotel chains adopt the member-only discount to increase direct-booking volume. Moreover, cross-selling is a mutual benefit to hotel operators and customers. The knowledge of how consumers respond to price promotions can help hotel operators provide better add-on items. Through this strategy, the customers will maximize value, while operators will increase profits.

Appendix A

Measurement Items for the Main Study.

Dependent Variable

How likely are you to purchase this add-on item with a hotel room?

How much would you be willing to pay for this add-on item? Enter U.S. dollar amount.

Do you want to purchase this add-on item? (yes or no)

The AHS Scale Items (I. Choi et al., 2003)

Everything in the universe is somehow related to each other.

Even a small change in any element in the universe can lead to substantial alterations in others.

Any phenomenon has a numerous number of causes although some of the causes are not known.

Any phenomenon has a numerous number of results although some of the results are not known.

Nothing is unrelated.

It is not possible to understand the pieces without considering the whole picture.

The whole is greater than the sum of its parts.

Paying attention to the field is more important than paying attention to its elements.

A marker of good architecture is how harmoniously it blends with other buildings around it.

Sometimes, the empty space in a painting is just as important as the objects.

Impulse Buying Scale Item (Rook & Fisher, 1995)

I often buy things spontaneously.

"Just do it" describes the way I buy things.

I often buy things without thinking.

"I see it, I buy it" describes me.

"Buy now, think about it later" describes me.

Sometimes I feel like buying things spur of the moment.

I buy things according to how I feel at the moment.

I carefully plan most of my purchases.

Sometimes I am a bit reckless about what I buy.

Appendix B
Survey Procedure.

Screen 1 (Rate Search Result on Kayak.com)

KAYAK Flights **Hotels** Cars Packages Cruises Deals More

1 room

Chicago, IL Sat 11/3 Sun 11/4

ES Meriot Chicago
★★★★

Meriot.com	Priceline	Expedia	Booking.com	\$309 View Deal
\$309	\$309	\$309	\$309	

Screen 2 (Discount stimuli)

No discount

Expedia Add your property Account

Flights **Hotels** Bundle and Save Cars Cruises Things to Do Vacation Rentals Deals Rewards Mobile

ES MERIOT CHICAGO ★★★★★
West Adam Street, Chicago, IL 1-855-873-656

Choose your room

Check-in: 11/3/2018 Check-out: 11/4/2018 Rooms: 1 **UPDATE**

DELUXE KING

Deluxe King Room features bright, neutral décor bathed in natural light and accented by elegant furnishings and fabrics. The bathroom has an oversized marble bath, separate shower and water closet, a 13" TV and signature bathrobes for your comfort.

\$309.00/per night
RESERVE

(continue)

Appendix B (continue)

Discount

ES MERIOT CHICAGO

51 West Adam Street, Chicago, Illinois 60603 USA +1 312-660-820

Dates
Sat, Nov 3, 2018 – Sun, Nov 4, 2018

Rooms
1 Room

Edit

WEBSITE ONLY DISCOUNT!

Take advantage of exclusive savings for hotel website direct booking.

DELUXE KING

Deluxe King Room features bright, neutral décor bathed in natural light and accented by elegant furnishings and fabrics. The bathroom has an oversized marble bath, separate shower and water closet, a 13" TV and signature bathrobes for your comfort.

~~\$309~~

\$271.92/per night

BOOK

You've found the best price!

MARIOT.com Direct Price

\$271.92

Priceline	\$ 309.00
Expedia	\$ 309.00
Booking.com	\$ 309.00

Screen 3 (Add-on item type)

Direct

Room Upgrade

Pay little more and enjoy our beautiful spa suite room. This new suite offering gives you access to additional amenities during your stay.

BOOK

Indirect

Champagne Veuve Clicquot with chocolate covered strawberries

Surprise your partner with a bottle of Veuve Clicquot and chocolate covered strawberries.

BOOK

Unrelated

Chicago Architectural Tour

Discover Chicago's world-renowned architecture during this 75-minute tour. Board a comfortable river boat for a cruise on the Chicago River, viewing landmarks while listening to engaging commentary from your guide.

BOOK

Authors' Note

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